



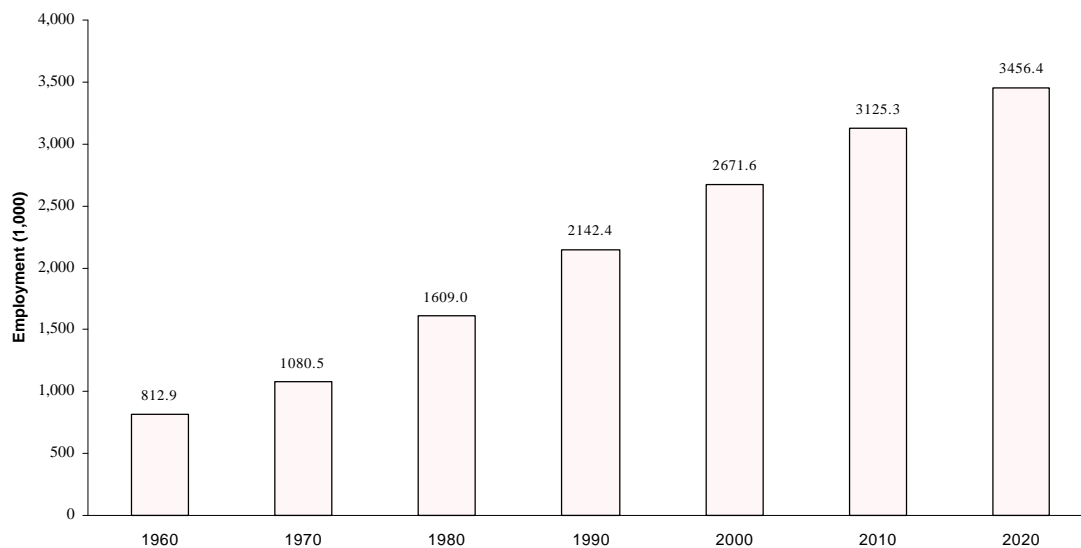
CHAPTER 3

Long-Term Forecast of Washington Wage and Salary Employment

IN 1995, THERE WERE 2.35 MILLION non-agricultural wage and salary jobs¹ in Washington State, more than double the state's employment level in 1970. Employment growth in the state averaged 3.1 percent per year between 1970 and 1995, far above the U.S. average annual rate of 2.0 percent during the same period.

Total Washington non-agricultural wage and salary employment is projected to reach 2.67 million in the year 2000 and 3.46 million by 2020 (Figure 3-1). This represents an average annual growth rate of 2.6 percent from 1995 to 2000, 1.6 percent between 2000 and 2010, and 1.0 percent from 2010 to 2020. The forecast is reported in Table 3-1. Table 3-2 presents a more detailed, sector-by-sector forecast of wage and salary employment.

Figure 3-1
Washington Total Non-Agricultural Wage and Salary Employment



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¹ The labor market terms used in this chapter have distinctive definitions: The **Labor Force** consists of the employed and the unemployed. It includes only non-institutionalized civilians 16 years of age and older. **Total Employment** is the number of employed persons by place of residence, including the self-employed and persons working in agricultural jobs. Total employment excludes non-civilian military personnel. The **Unemployed** represents the number of persons in a given month who are not working but are actively seeking work, as indicated by unemployment insurance claims and responses to the Current Population Survey. **Non-Agricultural Wage and Salary Employment** describes the number of jobs by place of work in non-agricultural industries in a given month reported by firms in the monthly Current Employment Statistics industry survey. The survey data are then extrapolated to produce an estimate of total industry employment. Non-agricultural wage and salary employment was about 89 percent of total employment in 1995.

Table 3-1
Washington Labor Force and Employment

Year	Labor Force	Total Employed	Unemployed	Unemployment Rate(%)	Total Non-Agricultural Wage & Salary Employment
1970	1,417,100	1,285,900	131,200	9.3	1,080,500
1971	1,401,100	1,259,200	141,900	10.1	1,065,100
1972	1,433,600	1,296,800	136,700	9.5	1,100,000
1973	1,483,800	1,366,800	117,100	7.9	1,152,100
1974	1,528,700	1,419,700	109,000	7.1	1,199,000
1975	1,562,200	1,412,300	149,800	9.6	1,225,500
1976	1,621,400	1,481,100	140,300	8.7	1,282,900
1977	1,692,300	1,544,100	148,300	8.8	1,366,800
1978	1,807,800	1,684,000	123,800	6.8	1,485,500
1979	1,935,800	1,805,600	130,300	6.7	1,581,100
1980	1,984,600	1,828,200	156,400	7.9	1,609,000
1981	1,996,800	1,806,000	190,800	9.6	1,612,000
1982	2,024,500	1,778,900	245,600	12.1	1,568,800
1983	2,068,400	1,837,700	230,700	11.2	1,586,000
1984	2,050,400	1,856,900	193,600	9.4	1,659,700
1985	2,090,400	1,920,700	169,600	8.1	1,710,300
1986	2,198,500	2,017,800	180,700	8.2	1,769,900
1987	2,257,500	2,086,800	170,700	7.6	1,851,500
1988	2,315,800	2,172,800	142,900	6.2	1,941,100
1989	2,450,900	2,299,600	151,300	6.2	2,046,300
1990	2,537,500	2,412,900	124,600	4.9	2,142,400
1991	2,535,100	2,372,500	162,600	6.4	2,177,400
1992	2,648,200	2,446,400	201,800	7.6	2,221,900
1993	2,701,200	2,495,300	205,900	7.6	2,251,700
1994	2,716,600	2,542,900	173,700	6.4	2,304,100
1995	2,817,300	2,637,200	180,100	6.4	2,346,800
1996	2,880,100	2,699,200	180,900	6.3	2,415,600
1997	2,987,500	2,845,600	141,900	4.7	2,514,700
1998	3,037,200	2,893,900	143,300	4.7	2,591,600
Forecast					
2000	3,133,700	2,960,400	173,300	5.5	2,671,600
2005	3,385,500	3,182,600	202,900	6.0	2,886,100
2010	3,633,000	3,422,000	211,000	5.8	3,125,300
2015	3,800,000	3,571,100	228,900	6.0	3,306,400
2020	3,926,700	3,697,700	229,000	5.8	3,456,400
Change					
1970-1980	567,500	542,300	—	—	528,500
1980-1990	552,900	584,700	—	—	533,400
1990-2000	596,200	547,500	—	—	529,200
2000-2010	499,300	461,600	—	—	453,700
2010-2020	293,700	275,700	—	—	331,100
Growth Rates					
1970-1980	3.4%	3.6%	—	—	4.1%
1980-1990	2.5%	2.8%	—	—	2.9%
1990-2000	2.1%	2.1%	—	—	2.2%
2000-2010	1.5%	1.5%	—	—	1.6%
2010-2020	0.8%	0.8%	—	—	1.0%

Table 3-2
Washington Non-Agricultural Wage and Salary Employment by Industry

	Actual					Forecast					Average Annual Growth Rates (%)				
	1960	1970	1980	1990	1995	2000	2005	2010	2015	2020	1960-80	1980-90	1990-2000	2000-10	2010-20
Manufacturing 1/	216,700	239,500	308,800	369,400	332,300	357,700	367,100	377,700	380,300	381,800	1.8	1.8	-0.3	0.5	0.1
Non-durable Manufacturing	70,800	74,500	87,600	108,400	108,500	104,600	107,500	110,600	112,700	114,800	1.1	2.2	-0.4	0.6	0.4
Foods & Kindred Products	27,100	29,000	32,000	37,600	42,000	37,800	38,300	39,200	39,600	39,900	0.8	1.6	0.1	0.4	0.2
Apparel Products	3,700	5,500	6,500	7,900	9,200	9,400	9,700	10,100	10,300	10,600	2.9	2.0	1.8	0.7	0.5
Paper & Allied Products	17,900	19,800	17,600	18,100	17,300	15,800	17,000	17,000	16,800	16,600	-0.1	0.3	-1.3	0.7	-0.2
Printing & Publishing	8,700	10,600	15,800	22,500	24,100	23,300	23,100	23,800	24,500	25,200	3.0	3.6	0.3	0.2	0.6
Chemical & Products 1/	10,600	5,900	8,700	13,200	5,500	6,100	6,300	6,300	6,400	6,500	---	---	---	0.3	0.3
Misc. Non-durables	2,800	3,700	7,000	9,000	10,400	12,100	13,200	14,100	15,100	16,000	4.7	2.5	3.0	1.5	1.3
Durable Manufacturing	145,900	165,000	221,200	260,900	223,800	253,100	259,600	267,100	267,600	267,000	2.1	1.7	-0.3	0.5	0.0
Lumber & Wood Products	44,500	42,200	47,000	39,900	35,400	33,700	34,700	35,900	35,000	34,200	0.3	-1.6	-1.7	0.6	-0.5
Furniture & Fixtures	2,900	3,500	3,300	4,100	3,700	4,700	4,800	5,000	5,000	5,000	0.6	2.2	1.4	0.6	0.0
Clay, Glass, Stone	5,000	5,800	6,900	7,900	8,800	9,700	9,000	8,900	8,900	9,000	1.6	1.4	2.1	-0.9	0.1
Products															
Primary Metals	10,200	14,100	16,700	13,000	11,200	12,000	12,200	12,100	11,700	11,300	2.5	-2.5	-0.8	0.1	-0.7
Fabricated Metal Products	6,700	7,400	11,700	12,200	13,100	15,100	15,400	15,700	15,800	15,800	2.8	0.4	2.2	0.4	0.1
Non-Electrical Machinery	5,700	10,000	15,000	20,500	21,900	25,900	28,400	28,500	28,500	28,800	5.0	3.2	2.4	1.0	0.1
Electrical Machinery	2,700	4,100	11,200	11,400	14,000	19,300	23,200	25,700	27,900	29,600	7.4	0.2	5.4	2.9	1.4
Aircraft & Parts	57,800	61,500	79,600	116,200	80,200	93,100	90,400	91,300	89,400	87,500	1.6	3.9	-2.2	-0.2	-0.4
Other Trans. Equipment	7,800	13,300	18,700	14,800	14,800	16,100	15,900	15,900	15,000	13,200	4.5	-2.3	0.8	-0.1	-1.8
Instruments	---	---	---	14,700	12,800	14,200	14,800	15,300	15,700	16,100	---	---	-0.3	0.7	0.5
Miscellaneous Mfg.	---	---	4,600	6,100	7,900	9,400	10,900	12,800	14,600	16,400	---	2.9	4.4	3.1	2.5
Mining	1,800	1,700	3,200	3,700	3,400	3,400	3,400	3,500	3,600	3,500	2.9	1.5	-0.8	0.3	0.0
Construction	44,600	53,400	92,900	117,300	122,000	144,300	149,700	160,000	162,600	162,600	3.7	2.4	2.1	1.0	0.2
Trans., Comm., & Utilities 2/	61,300	72,200	91,400	113,000	119,600	141,100	150,600	166,200	170,900	175,100	2.0	2.1	2.2	1.7	0.5
Wholesale Trade	53,600	64,600	100,600	128,500	142,500	158,700	169,800	184,200	195,100	199,900	3.2	2.5	2.1	1.5	0.8
Retail Trade	126,500	176,300	280,800	392,900	437,500	489,500	528,400	570,100	602,100	617,800	4.1	3.4	2.2	1.5	0.8
Finance, Ins, Real Estate	38,300	58,400	91,800	115,500	121,600	136,800	148,700	163,700	177,500	189,800	4.5	2.3	1.7	1.8	1.5
Services	103,500	169,700	308,500	504,300	623,300	756,900	854,400	955,100	1,038,200	1,117,200	5.6	5.0	4.1	2.4	1.6
Traded Services 1/	---	---	83,500	146,200	192,200	260,600	302,800	350,300	386,800	422,800	8.2	5.8	6.0	3.0	1.9
State & Local Government	115,900	186,500	263,000	323,900	374,400	414,400	447,600	477,400	509,300	541,900	4.2	2.1	2.5	1.4	1.3
Federal Government	50,700	58,100	67,900	73,700	70,100	68,700	66,400	67,500	66,800	66,800	1.5	0.8	-0.7	-0.2	-0.1
Goods-Producing	263,100	294,600	404,900	490,400	457,700	505,400	520,200	541,200	546,500	547,900	2.2	1.9	0.3	0.7	0.1
Service-Producing	549,800	785,900	1,204,100	1,652,000	1,889,100	2,166,200	2,365,900	2,584,100	2,759,900	2,908,500	4.0	3.2	2.7	1.8	1.2

1/ Significant break in series after 1990 due to reclassification of a portion of chemicals (SIC 2819) to commercial physical research (SIC 8731).

2/ Significant break in series in 1996 due to reclassification of a portion of Engineering Services (SIC 8711) to Sanitary Services (SIC4959).

Long-Term Employment Trends

Three important factors affect long-term employment trends. One is growth of the indigenous labor force through births, deaths, and aging. A second is the long-term level of unemployment. The third is the change in the size of the available labor force due to net migration (the difference between workers leaving and entering the state). Growth of the labor force due to net migration, in turn, depends heavily on the strength of the state economy relative to other parts of the country. The long-term labor force forecast in Chapter 2 of this report takes into account all three factors. Based on these factors, the Washington labor force is forecast to increase by about 1.1 million between 1995 and 2020.

At any given time, a portion of the labor force is unemployed. Since 1970, the Washington unemployment rate has ranged from a low of 4.8 percent in 1997 and 1998 to a high of 12.1 percent in 1982. For the most part, the pattern of Washington's unemployment rate has tracked closely with the U.S. business cycle and U.S. unemployment rates, but at a level about 1 to 2 percentage points above the national average.

The unemployment rate in Washington has been about 2 to 4 percentage points above the U.S. rate during most economic downturns, but much closer to the U.S. rate during recoveries and expansions. Over the last ten years, however, the difference between Washington's and the U.S. unemployment rates has narrowed. From 1985 to 1995, the difference between the Washington unemployment rate and the U.S. unemployment rate averaged about 0.5 percentage point. The persistent gap between the U.S. and Washington unemployment rates reflects in part the relatively high percentage of seasonal jobs in the Washington economy. The gap is also related to the large numbers of in-migrants who are attracted to Washington during economic expansions, which limits reductions in the state's unemployment rate during good economic times.

The Washington economy experienced strong growth in the second half of the 1990s, which drove the state unemployment rate below 6 percent. In the two decades after 2000, the state unemployment rate will fluctuate between 5.5 and 6.0 percent. The implication is that the trends and factors contributing to the narrowing gap between the U.S. and Washington unemployment rates will continue. By 2020, there will be 3.70 million employed Washington residents, an increase of about 1.1 million employed persons compared to 1995.

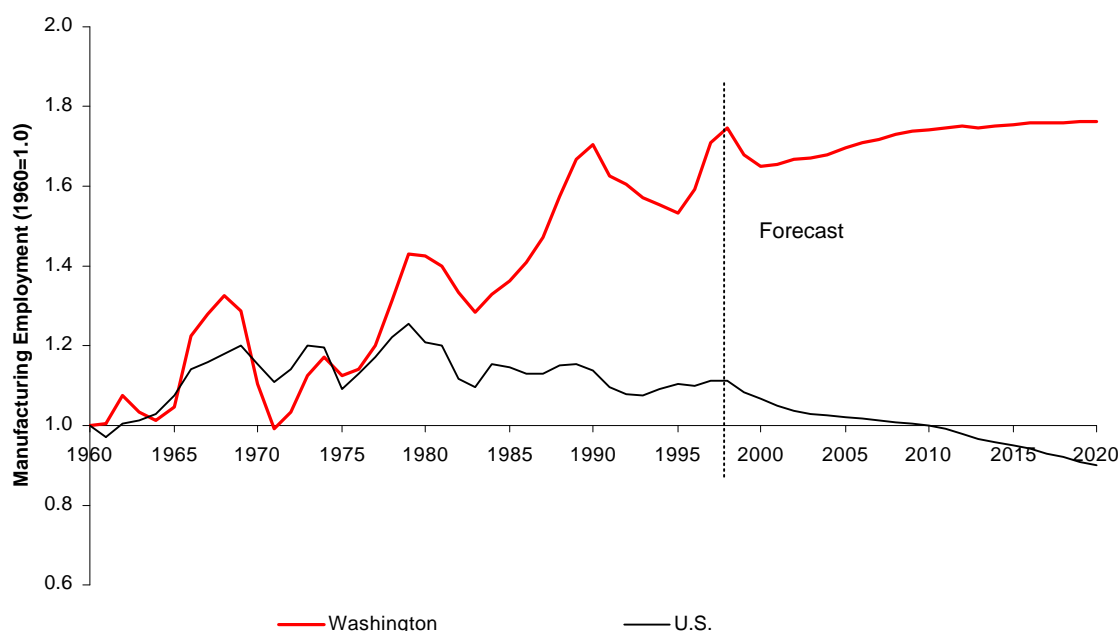
Goods-Producing Employment

Manufacturing will maintain a vital presence in the Washington economy over the next 25 years. Continued growth in capital investment for productivity enhancements, both nationally and internationally, will generate strong demand for goods produced by Washington's "high-tech" manufacturing sectors. In addition, long-term demand for Washington's natural resource products will continue to grow as both the national and international economies expand.

However, internal efficiencies and technological changes leading to gains in productivity will serve to hold employment growth in check. Some of the gains in output per worker will be market driven, arising out of increased competition in a world economy. Others will be dictated by necessity – the need to adapt to a more slowly growing labor force and, in some cases, growing scarcities in raw materials. In either case, the drive for greater efficiencies will constrain overall employment increases in the goods producing sectors within a narrow band averaging 0.7 percent annually between 1995 and 2020 (Figure 3-2).

The national economy, in contrast, is expected to lose employment in manufacturing throughout the forecast period. Washington is expected to share the national outlook for slower growth in population and employment in the future. But employment growth in the state manufacturing sector will follow a path different from the rest of the nation, due to the high concentration of capital goods production in Washington's export base and to the accessibility of state production to Asian markets.

Figure 3-2
Manufacturing Employment Trends: Washington and U.S.



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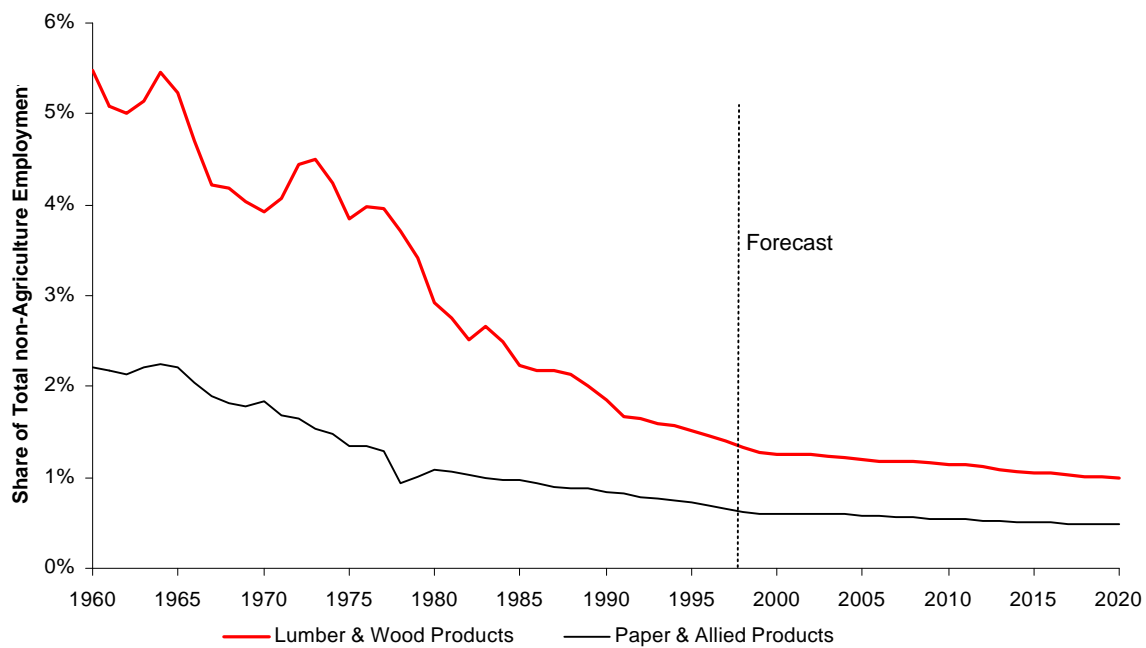
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The need for major investments in plant and equipment, particularly among developing nations, is expected to accelerate through the next decade. Accordingly, growth in machinery and electronics will set the tempo of Washington's manufacturing advance both in the short- and long-run. Aerospace employment built up rapidly in 1996-97 but began another downcycle in the second half of 1998. Further down-sizing in lumber and wood products and paper and allied products will be offset by positive job growth in the rest of manufacturing from 1995 to 2020.

Lumber and Wood Products

Jobs in lumber and wood products are expected to decline in both absolute and relative terms throughout most of the forecast period. This is basically a continuation of the long-term trend extending back to the end of World War II. In 1947, the lumber and wood products industry employed 58,800 workers, which accounted for 8.9 percent of all non-farm jobs and 34 percent of all manufacturing jobs in the state. In 1995, employment stood at 35,400 workers and the shares had fallen to 1.5 percent and 10.8 percent, respectively. By 2020, lumber employment is projected to total 34,200 workers, representing 1.0 percent of total non-agriculture jobs and 9.0 percent of manufacturing jobs in the state (Figure 3-3).

Figure 3-3
Share of Total Washington Non-Agriculture Employment: Lumber and Paper Industries



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The structure of the industry has changed dramatically in the post-war period. As with other goods-producing sectors, greater worker productivity has been a major factor behind a shrinking lumber and wood products employment base. Increased mechanization and newer logging and milling technology have decreased the number of workers needed for production.

In the last decade a significant shift occurred on the supply side. In the late-1980s, policies corresponding to a heightened demand for environmental and wildlife protection effectively removed a sizable portion of the available supply of raw material from production. Federally-owned forests, managed by the U.S. Forest Service and the Bureau of Land Management, were the focus of legal and regulatory efforts to comply with the Endangered Species Act. These measures were designed to protect the habitat of the Northern Spotted Owl, the Marbled Murrelet, and various species of salmon. Consequently, timber sales from the federal lands in the state have

been declining since the late 1980s, heightening the costs of raw material for local sawmills and planing mills.

The environmental concerns and listings under the Endangered Species Act will continue to restrain timber supply in the state. The seven new listings announced by the National Marine Fisheries Service (NMFS) in March, 1999 brought the number of “threatened” or “endangered” salmon species in Washington to a total of 16. The habitats upon which the salmon runs rely spread over most of the timber-producing regions in the state. Protection and restoration of the habitats may significantly increase the costs of timber harvest, or reduce the amount of accessible/harvestable (public or private) forest lands in the state.

It is expected that lumber and wood products employment will continue to be affected by environmental constraints throughout the forecast period. These pressures are likely to force accelerated investment labor-saving technology and other measures to make more out of a finite amount of raw material. Higher material costs and competition from alternative building materials such as steel and composites will put an added emphasis on internal efficiencies including wages and benefits. These factors all point to a constrained demand for labor.

Paper and Allied Products

Employment in paper and allied products declined from 18,100 in 1990 to 17,300 in 1995, and is expected to dip slightly to 16,600 in 2020. In relative terms, the employment share in paper will drop from 0.7 percent of total non-agricultural wage and salary employment in 1995 to 0.5 percent in 2020. The industry is highly capital-intensive, and gains in productivity will enable output to climb while at the same time keeping employment intact.

Many of the same forces affecting lumber and wood products apply to the pulp and paper industry. Environmental laws have affected processing requirements, and limits in harvesting have similarly affected supply. To its advantage, the paper industry is somewhat more flexible than lumber in acquiring raw resources. Chips can be imported and recycled paper can be used. Many paper establishments already process a significant amount of recycled materials, something much of the lumber sector has not yet accomplished.

A significant portion of the industry’s production in Washington is exported. The rising competition from Asian and Canadian operators will provide a dampening effect on the future growth of this industry in the state. On the other hand, environmental demands may result in accelerated investment in resource-saving and pollution abatement technologies. Adoption of these technologies will enhance the industry's viability in the region.

Aerospace

Aerospace employment in Washington increased 42 percent from 79,800 in December 1995 to 113,200 in June 1998. However, job growth at Boeing peaked in the second quarter of 1998 and — while production will continue to expand well into 1999 — the company has scheduled a company-wide workforce reduction of 48,000 jobs from July, 1998 to the end of 2000. Besides responding to market demands, Boeing has also put a new emphasis on cost controls as it competes head-on with Airbus Industries and other potential foreign producers amid pressures on

operating margins. Industry employment in the state will gradually decline over the forecast period as productivity gains and use of production capacity in other states and nations outpace growth in output.

A majority of the planned employment cutback in the next few years will be at the production facilities of commercial aircraft in Washington. It is forecasted that a total of 25,000 employment reduction will take place in the state by the year 2001. The most severely affected will be 747 jumbo jet production in Snohomish County, which is scheduled to decline from four aircraft per month in 1988-89 to just one per month in 2000.

However, the prospects for long-term demand are bright. Boeing predicts that world air traffic will grow 4.9 percent per year on average over the next two decades. A total of 17,600 new jets worth \$1.3 trillion are envisioned, requiring output of 880 planes a year by the world's commercial aircraft manufacturers — significantly higher than the current rate of production. A quarter of the demand is expected to emanate from replacement aircraft because of fuel inefficiency, excessive noise, or obsolescence. The remaining three quarters will be generated by new growth in air travel, particularly in the Asia-Pacific Rim area. Two-thirds of all new aircraft deliveries are expected to go to carriers outside the U.S.

Boeing recently made two major acquisitions as part of its corporate strategy. The first was the buyout of Rockwell International's aerospace and defense operations in 1996; and the second was a merger deal with McDonnell Douglas in 1997. Both significantly strengthen the company's defense and space businesses. This should bode well for the long-term stability of aerospace employment in Washington, where Boeing's headquarter operations are located.

Growth of aerospace employment in the state will be limited in the future by several factors. One major factor is foreign competition, particularly from Airbus. There is also the potential for added competition in the medium to long term from Russia and in the long run from Japan. Even some Pacific Rim nations have developed manufacturing capabilities and may present competition to the local suppliers and subcontractors. The second factor is productivity. To meet the challenge of foreign competition, Boeing recognizes that productivity of its workers must continue to increase at a fast rate. Higher productivity means that job growth will be restrained. And, third, in order to gain new aircraft orders from foreign carriers, Boeing will likely continue to outsource certain components to manufacturers in the foreign carriers' home countries. Although the outsourcing practice appears to limit employment growth in Washington, it will also limit the loss of market share (and jobs) to Airbus and other competitors.

Other Transportation Equipment

Washington's transportation equipment production other than aerospace consists of shipbuilding, boat building, and manufacturing other vehicles (primarily heavy trucks and trailers). Each segment of this industry faces very different market forces and prospects. The major shipyards will be hard pressed to maintain current levels of operation with completion of the Washington ferry contracts. Luxury yachts and other pleasure craft can be expected to move in tandem with the general economy. On the plus side, sales of heavy trucks and trailers can be expected to increase over time with the growth in capital investment at home and abroad.

Primary Metals

Washington's primary metals industry is dominated by aluminum smelting and refining. The availability of cheap, abundant, and reliable electrical power that is essential in the electrolytic reduction process has long been a factor in siting aluminum facilities in the region. Energy represents about 30 percent of aluminum production costs.

The region's aluminum producers enjoyed a distinct competitive advantage with respect to costs until a big electric rate increase in 1979. To remain competitive, the Bonneville Power Administration (BPA) agreed to tie power rate changes to the prevailing world price of finished aluminum and to participate in new plant and equipment investments to enhance overall operating efficiencies. This largely restored the industry's competitive position during the subsequent periods of high demand.

Several unsettling factors affected the picture in the early 1990s. World production exceeded demand and sales were maintained only by international agreement to address weakened market conditions. Russia possesses a significant aluminum production capacity and its dumping on the open market in 1992-93 caused prices to fall precipitously. Demand strengthened in 1994-98 and some idled capacity was put back on line.

The electricity industry in the United States is in the midst of significant restructuring, resulting from the national and the states' deregulation efforts to promote competition. One clear outcome is that users will have a wide range of choices on power producers, energy sources, and delivery services. Another anticipated outcome is lower regional differences in electricity prices around the nation. Over time, this may erode the advantage of low electricity costs that aluminum operations have enjoyed in the Pacific Northwest. For example, U.S. Department of Energy forecasts that the regional difference in electricity cost will narrow moderately from a range of 150 percent in 1995 to 130 percent in 2003.

The price and availability of electricity will clearly play a significant role in determining the future of aluminum production in Washington. Aluminum producers will see more competition for electricity use from residential, commercial, and other manufacturing consumers. The increased competition for electricity in the region has already been realized by the industry. In late 1993, the BPA reduced by a quarter the amount of power available to aluminum producers and raised the price of electricity by 20 to 25 percent. In 1996, aluminum producers in the region negotiated a new contract with the BPA. The new agreement requires, for the next five years, that aluminum companies buy the BPA's electricity at fixed rates, but at the same time it allows the companies to purchase electricity from other suppliers.

Employment is expected to stabilize over time. This basically underscores the significant strides over the past decade-and-a-half that the industry has made in increasing efficiencies and enhancing competitiveness. Demand for primary and fabricated metal should remain strong throughout the forecast period, given the bullish outlook for both consumer and industrial durable goods. Australian-based BHP Steel opened its new steel rolling mill in Kalama in 1997, adding another dimension to this industry in the state.

Machinery and Instruments

In 1995, machinery and instruments industries in Washington employed 48,700 workers, accounting for 14.7 percent of total manufacturing jobs in the state. The forecast predicts a 53 percent employment increase in these sectors between 1995 and 2020. By 2020, about 20 percent of the state manufacturing jobs will be in these industries.

Growth of Washington's machinery and instruments sector has been strong over the past 20 years, and will continue to show strength for the foreseeable future. Combined employment in electrical and non-electrical machinery and instruments manufacturing in the state has risen at a robust 5 percent average annual pace since 1970 – almost twice the pace of total employment. Of particular note has been the explosive growth in electronics and scientific and medical instruments.

Market adjustments, particularly in the semi-conductor industry, brought some restructuring in 1997-98. But demand for computer hardware is expected to remain strong throughout the forecast period. The need for business, at all levels, to increase productivity requires the application of computer technology and electronic devices as an integral part of the daily work environment. The use of computers in schools and homes is also becoming commonplace. Key attributes in attracting and retaining high-technology manufacturing are likely to remain positive given the thrust of state and local economic development efforts. Cases in point include the Intel research and development facility at DuPont, and the new WaferTek plant at Camas which opened in 1997 with target employment of 800 by 2000.

Non-electrical machinery production is keyed largely to farm, construction, forest products, and other heavy industries. The outlook for this sector is as bright as that of the electronics industry. Overall investment levels are expected to continue strong. At the same time, new and expanding markets in Europe, Asia, and Central and South America are strong possibilities in the long run given the accelerating trend toward greater industrialization in these economies.

Agriculture and Food Processing

The diversity of Washington's farm production is expected to continue. As long as a significant portion of Washington's crops — notably fruits, berries, and vegetables — are grown for fresh markets, the need for significant farm labor will remain strong. Increased mechanization, use of biotechnology, online telecommunication, and remote sensing will characterize the industry over the long run. But in contrast to sharp declines projected nationally to 2020, employment growth in Washington's agricultural sector should stay positive as the markets of the state's farm products continue to expand, both domestically and overseas.

Crop production will be the dominant force in the industry due to the importance of the state's fruit and vegetable harvests. Long-term prospects for processed fruits, vegetables, and specialty products look very strong. Some labor market and demographic trends favorable to raising the demand for convenience foods include: a growing number of households having two or more workers; and elderly population age 65 years and older increasing at a rate more than twice that of the total population.

Foreign exports are assumed to constitute ever larger proportions of total sales over the long run. This is expected for both fresh and processed products. Significant inroads have already been made for Washington-produced apples, potatoes, and other fruits and vegetables. Niche markets will play increasingly important roles, aided by the growing popularity of western style foods in the developing countries. The opening of economies in both Europe and Asia to free trade will add additional opportunities to expand export markets.

Construction

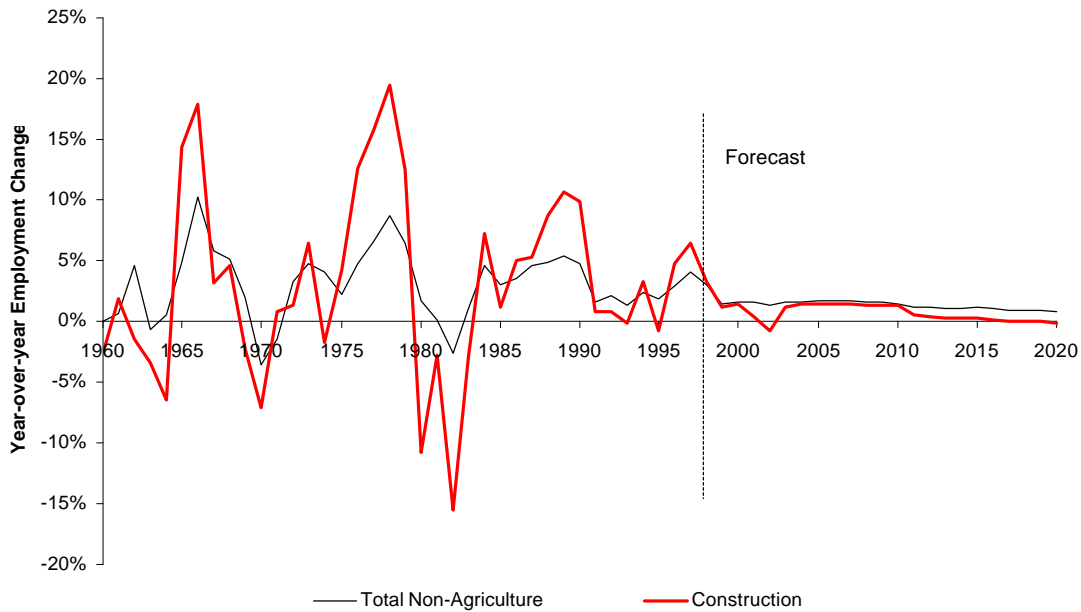
Historically, construction activity in the state has been very volatile. Short-term demand is sensitive to interest rates and the business cycle. In addition, large public works projects can exert a powerful short-term influence over the construction sector. In the long term, however, the demand is primarily determined by construction costs, demographic changes, and employment growth. Population growth mainly affects the need for residential housing, whereas employment growth determines commercial buildings and non-building construction.

In spite of its many short-term ups and downs, the average level of construction employment relative to total employment has actually been quite stable over the long term. In the past 30 years, construction employment has been about 5.2 percent of total non-agricultural employment, with fluctuations occurring around this level during boom and bust periods. The lowest ratio of construction employment to total employment during the past 30 years was 4.7 percent, occurring on several occasions during economic slowdowns. The highest level of this ratio was 6.6 percent in 1979, when an economic boom was underway and the Washington Public Power Supply System had five nuclear power plants under construction.

Construction activity in the 1980s was brisk, spurred by a surging investment in commercial projects (i.e., office, industrial, and retail space) and the booming housing market in the second half of the decade. As a result, average growth in Washington construction employment increased to 2.4 percent per year over the decade. Construction employment again rose at a 4.8 percent annual rate between 1995 and 1998, when rising personal income and low interest rates stimulated housing activities. In the next few years, several major public-investment projects will contribute to further construction activity in the state. These include construction of the baseball and football stadiums in downtown Seattle, the rail transit system in the Puget Sound region, and highway improvements financed through a 30 percent increase in the state's 6-year transportation budget (Referendum 49).

However, that rate of growth is not expected to sustain in the long run. Throughout the forecast period population growth is predicted to gradually slow down. Likewise, the rate of growth of total employment is forecast to fall gradually. These two factors suggest that both the residential and non-residential demand for construction employment will increase at a slow rate over the forecast horizon. Some of the decline will be offset by rising incomes and the subsequent demand for more expensive housing and for remodeling/replacement. In addition, the prospects of low, stable long-term interest rates and inflation in the future would contribute to raising the levels of investment in residential and commercial buildings.

Figure 3-4
Relative Growth in Construction and Total Non-Agricultural Employment



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Technology changes will affect future construction industry in several ways: telecommunication, teleconferencing, home offices, telecommuting, Internet/electronic shopping, mobile offices, and inventory management. These factors will exert significant influence on both the quantity and the types of building space demanded.

Taking into account all the positive and negative factors affecting the industry's future, the forecast suggests that construction employment will lose some of its share of overall employment to the faster growing sectors. Construction employment as a share of total non-agricultural wage and salary employment will decline gradually to 5.1 percent in 2010. By 2020, the share is projected to be about 4.7 percent of wage and salary employment, reflecting the slower population and employment growth occurring at the end of the forecast period.

Service-Producing Employment

The relationship between goods-producing industries and service producing sectors has changed substantially over the past 20 years. Increased productivity has slowed the pace of job growth in the goods producing sectors, while heightened demand for consumer services among the rising number of dual wage earning families has accelerated job growth in services, retail trade, and other non-manufacturing sectors. In 1960, non-goods producing jobs represented about two-thirds of total non-agricultural wage and salary employment. In 1995, the share rose to about 80 percent. It is expected to rise further in the forecast to more than 84 percent by 2020 (Table 3-3).

Transportation, Communication, and Utilities (T.C.U.)

Over the past 25 years, the share of total non-agricultural employment represented by T.C.U. has steadily declined from 6.7 percent in 1970 to 5.1 percent in 1995. Much of this is due to technological advances in industries such as trucking, shipping, air transportation, and telecommunications. These advances have greatly increased capital intensity and labor productivity in these industries, which have made large increases in output possible without a corresponding increase in employment.

Telecommunication is the industry where most new products/services will be seen in the next decade. This occurs mainly as a result of the integration of voice, data, and video services through wireline (coaxial or fiber cable) or wireless (radio systems, microwave, or satellites) networks. Almost every element of telecommunication services including local exchange, cellular and Internet telephony, and global information flows will undergo a paradigm shift. In addition, the U.S. Telecommunication Act of 1996 has just started showing its effect on removing barriers to local competition.

In recent years, the deregulation of most T.C.U. industries has resulted in higher operating efficiency and productivity gains. The forecast calls for the benefits of further technological improvements, especially in communications, to sustain the demand for T.C.U. services and thus for the industry employment to increase at a healthy pace. T.C.U. jobs as a share of total non-agricultural employment is expected to stay around 5.2 over the forecast period.

Wholesale Trade

Although the function of the wholesale trade sector is selling merchandise to retailers (or other wholesalers), wholesale trade employment has grown at a substantially slower rate than retail trade employment over the past 30 years. This primarily reflects technological advances and business improvements such as computerization, sophisticated inventory controls, and more efficient systems of distribution and delivery. Productivity and management improvements are expected to continue. Vertical integration in recent years, as evidenced by the evolving warehouse retailing, one-stop shopping, and specialty superstores has chipped away some employment growth in wholesale industry.

It is therefore predicted that wholesale trade employment will grow at an average annual rate of 2.2 percent in the second half of the 1990s, a half percentage point below the projected annual growth rate of the total non-farm employment. During the two decades after 2000, wholesale trade employment is predicted to grow at an annual rate of 1.2 percent (Figure 3-5).

Retail Trade

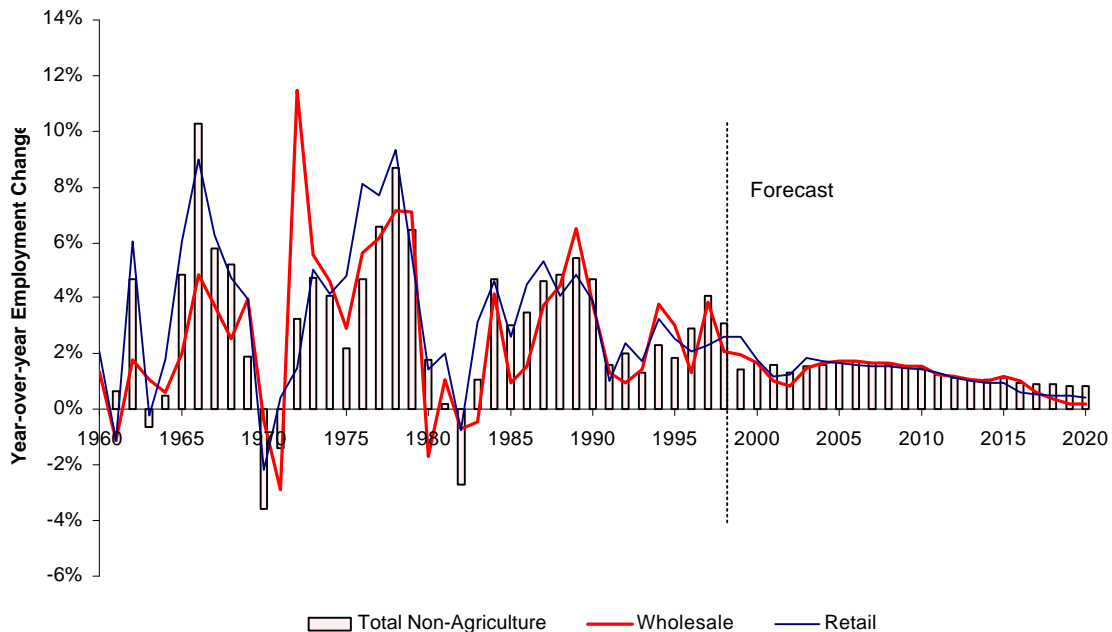
Employment in retail trade has increased as a percentage of total employment over the past 30 years, primarily reflecting increases in income and spending power. During the 1960s and 1970s, the growth of household income came from increases in wages and rising female labor participation. In the 1980s, when little or no growth of real wages occurred, spending power still increased but primarily as a result of the continued growth in the labor earnings of women. In addition to providing higher household income, increases in the number of two income

households also reduced the time available for preparation of meals at home, further fueling growth of eating and drinking establishments, the largest and fastest growing retail trade subsector.

The forecast calls for retail trade employment to continue to increase as a percentage of total employment through the end of the century, but at a slower rate than in the past. This projection is based on the expectations that future wage increases will not match those of the 1960s and 1970s, and increases in total personal income will be slower in the next 25 years than was the case between 1970 and 1995 (see Chapter 4). In addition, since there are now already many women in the labor force, the growth of two-income households is expected to slow. All these considerations lead to a forecast of slower future growth of retail trade employment than in the past three decades.

Other trends in retail trade will also act to reduce employment growth in that sector. Increasing worker productivity and economies of scale generated by warehouse-type superstores will continue to offset employment growth to some extent. Another uncertainty with respect to future retail employment growth is the evolution of electronic shopping through the Internet. Consequently, retail trade employment's share of total wage and salary employment will decline slightly to 17.9 percent by 2020.

Figure 3-5
Relative Growth in Trade and Total Non-Agricultural Employment



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Table 3-3
Percent Share of Total Non-Agricultural Wage and Salary Employment by Industry

	Actual					Forecast				
	1960	1970	1980	1990	1995	2000	2005	2010	2015	2020
Manufacturing 1/	26.7	22.2	19.2	17.2	14.2	13.4	12.7	12.1	11.5	11.0
Non-durable Manufacturing	8.7	6.9	5.4	5.1	4.6	3.9	3.7	3.5	3.4	3.3
Foods & Kindred Products	3.3	2.7	2.0	1.8	1.8	1.4	1.3	1.3	1.2	1.2
Apparel Products	0.5	0.5	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3
Paper & Allied Products	2.2	1.8	1.1	0.8	0.7	0.6	0.6	0.5	0.5	0.5
Printing & Publishing	1.1	1.0	1.0	1.1	1.0	0.9	0.8	0.8	0.7	0.7
Chemical & Products 1/	1.3	0.5	0.5	0.6	0.2	0.2	0.2	0.2	0.2	0.2
Misc. Non-durables	0.3	0.3	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5
Durable Manufacturing	17.9	15.3	13.7	12.2	9.5	9.5	9.0	8.5	8.1	7.7
Lumber & Wood Products	5.5	3.9	2.9	1.9	1.5	1.3	1.2	1.1	1.1	1.0
Furniture & Fixtures	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Clay, Glass, Stone Products	0.6	0.5	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3
Primary Metals	1.3	1.3	1.0	0.6	0.5	0.4	0.4	0.4	0.4	0.3
Fabricated Metal Products	0.8	0.7	0.7	0.6	0.6	0.6	0.5	0.5	0.5	0.5
Non-Electrical Machinery	0.7	0.9	0.9	1.0	0.9	1.0	1.0	0.9	0.9	0.8
Electrical Machinery	0.3	0.4	0.7	0.5	0.6	0.7	0.8	0.8	0.8	0.9
Aircraft & Parts	7.1	5.7	4.9	5.4	3.4	3.5	3.1	2.9	2.7	2.5
Other Trans. Equipment	1.0	1.2	1.2	0.7	0.6	0.6	0.6	0.5	0.5	0.4
Instruments	---	---	---	0.7	0.5	0.5	0.5	0.5	0.5	0.5
Miscellaneous Mfg.	---	---	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.5
Mining	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Construction	5.5	4.9	5.8	5.5	5.2	5.4	5.2	5.1	4.9	4.7
Trans., Comm., & Utilities 2/	7.5	6.7	5.7	5.3	5.1	5.3	5.2	5.3	5.2	5.1
Wholesale Trade	6.6	6.0	6.3	6.0	6.1	5.9	5.9	5.9	5.9	5.8
Retail Trade	15.6	16.3	17.5	18.3	18.6	18.3	18.3	18.2	18.2	17.9
Finance, Ins, Real Estate	4.7	5.4	5.7	5.4	5.2	5.1	5.2	5.2	5.4	5.5
Services	12.7	15.7	19.2	23.5	26.6	28.3	29.6	30.6	31.4	32.3
Traded Services 1/	2.1	3.6	5.2	6.8	8.2	9.8	10.5	11.2	11.7	12.2
State & Local Government	14.3	17.3	16.3	15.1	16.0	15.5	15.5	15.3	15.4	15.7
Federal Government	6.2	5.4	4.2	3.4	3.0	2.6	2.3	2.2	2.0	1.9
Goods-Producing	32.4	27.3	25.2	22.9	19.5	18.9	18.0	17.3	16.5	15.9
Service-Producing	67.6	72.7	74.8	77.1	80.5	81.1	82.0	82.7	83.5	84.1
Total Non-Agricultural Emp.	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

1/ Significant break in series after 1990 due to reclassification of a portion of chemicals (SIC 2819) to commercial physical research (SIC 8731).

2/ Significant break in series in 1996 due to reclassification of a portion of Engineering Services (SIC 8711) to Sanitary Services (SIC4959).

Finance, Insurance, and Real Estate (F.I.R.E.)

Historically, employment in F.I.R.E. has grown slightly faster than total wage and salary employment, reflecting the growing population and rising real personal income. In the first half of the 1990s, this trend seemed to hold despite productivity improvements, mergers, and a shift toward electronic banking. In Washington State, the number of branch banks expanded rapidly during the 1990s. The boom in mortgage financing/refinancing and the expansion of the number and kinds of services that banks provide also helped to keep employment growth high. The low and stable interests, accompanied by the prospering security markets, stimulated the growth in investment banking and brokerage businesses.

In 1998, mortgage interest rates continued to fall, prompting vigorous refinancing activities. It also appears that retrenchments and consolidations of the financial industry will continue. For the rest of the 1990s, these trends indicate that employment in F.I.R.E. will increase steadily. In the next few decades, aging of the population will raise the demand for F.I.R.E. services. This happens as the baby boom generation moves into the age cohorts that save a high proportion of their income, and as the elderly population with high assets ownership grow.

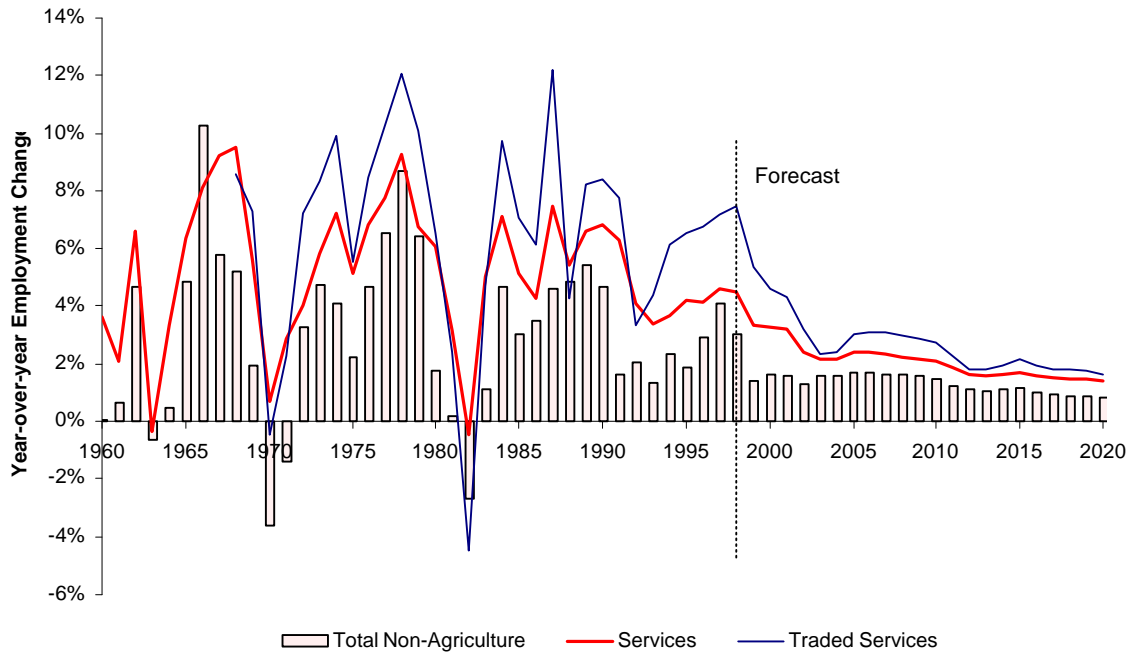
After 2000, employment in F.I.R.E. will increase, but at a slower rate than in the past. Computerization and other advances will increase growth in output per worker in F.I.R.E. and these productivity increases will offset to a large degree the increases in demand for F.I.R.E. services, which have resulted from higher incomes and the increased complexity of banking, finance, and insurance. Trends toward electronic banking and interstate banking are uncertainty factors affecting employment growth in this sector.

Services

Services have been the fastest growing sector of the economy in recent years, and this is expected to continue during the forecast period. Services employment will grow by an average of 4.0 percent per year between 1995 and 2000. After the turn of the century, services employment growth is expected to slow significantly to an annual rate of 2.4 percent from 2000 to 2010, and further slow to 1.6 percent per year on average through 2020 (Figure 3-6). However, services employment will remain the fastest growing sector throughout the forecast period. Its share of total wage and salary employment will grow from 26.6 percent in 1995 to 32.3 percent in 2020.

Traded services, including legal services, business services, engineering, management, and accounting services, represent more than 30 percent of total services employment. This group has been the fastest growing within the services division, and is predicted to lead this division in the future. By 2020, traded services will have grown to almost 40 percent of all services employment. Growth in basic services can be attributed to numerous factors. Much of this growth reflects the trend by businesses to contract out functions (e.g. human resources, advertising, and data processing, etc.) rather than use in-house services. The ever increasing complexity of the legal and data processing fields has resulted in more and more firms to out-source these functions. Another major factor in the growth of business services has been the increasing use of temporary personnel to perform specialized tasks or to meet peak periods of demand. As a result, there has been rapid growth in employment at temporary help and employment agencies.

Figure 3-6
Employment Growth: Total Non-Agriculture, Services, and Basic Services



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The growth of the prepackaged software industry is another important element in the forecast of business services. A Washington company, Microsoft Corporation, is the largest firm in this industry. An impact study by Conway and Associates indicates that Microsoft was the state's seventh largest employer in 1995. According to the report, each of the almost 9,000 Microsoft jobs leads to 3.4 other jobs in the state. Including stock options, the average employee at Microsoft earned more than \$138,000 in 1995. The company has been growing briskly, both domestically and in foreign markets. Company executives plan to add as many qualified employees as they can find in Washington in the next few years. The rapid growth of high-wage jobs at Microsoft and other software development companies in the Seattle metropolitan area has helped diversify the state's employment as well as boost the state economy.

Although other services are not expected to grow as fast as traded services, they will continue to grow faster than total wage and salary employment. Like the traded services, health services has grown at a faster than average rate in the past. Future growth, however, is expected to be only slightly above average. Historical increases in health services employment reflect an increasing commitment of society's resources to health care. However, further significant increases in the proportion of national income spent on health care are unlikely. Although the aging of the population during the forecast period will fuel the demand for health services, cost pressures will limit the industry's growth.

Personal and repair services will probably be the weakest of the service subsectors, while hotels, amusement and recreation, education, and social services will be relatively strong.

State and Local Government

Education is a major function of state and local government. State and local government employment grew faster than total employment between 1958 and 1972, as the Baby Boom generation moved through the educational system. Growth in the age 5 to 17 primary school age population is expected to slow beginning in the second half of the 1990s. However, the slowdown in the primary school age population comes at a time when growth in the college-age population (age 17 to 22) will be increasing. The increase in the college-age student population is expected to add employment in public higher education.

Several factors are working together to slow down the growth of government employment. The first is passage in 1993 of Initiative 601, which limits growth by tying spending to the growth of total population and inflation. The second is a general sentiment across the nation that government has grown too large to be effectively managed, resulting in pressure to outsource government functions to the private providers. The past several years have seen a significant slowdown in the growth of Washington State government employment, and this is expected to continue into the future. Most of the growth in “state and local government” combined sector is expected to occur in local government employment. Overall, the proportion of total wage and salary employment represented by state and local government is expected to gradually decline over the next 20 years, despite the projected increases in the demand for services provided by the public sector.

Federal Government

Federal government employment has declined as a percentage of total employment throughout the post-World War II era. This trend is expected to continue during the forecast period. Although some areas of federal government activity such as the postal service and park service are expected to increase along with the population, Washington's large defense sector appears certain to decline in the long term. Defense-related cutbacks make significant increases in federal government employment unlikely in the long run. In the past few years, base closures in other states transferred military personnel to Washington; these shifts helped but were not enough to offset declines in other areas of federal civilian employment. In the future, a steady decline in federal government employment in the state is expected through 2010. Significant structural changes in the federal government operations are assumed to be essentially completed by 2010 and federal government employment in the state is expected to decline only slightly between 2010 and 2020.

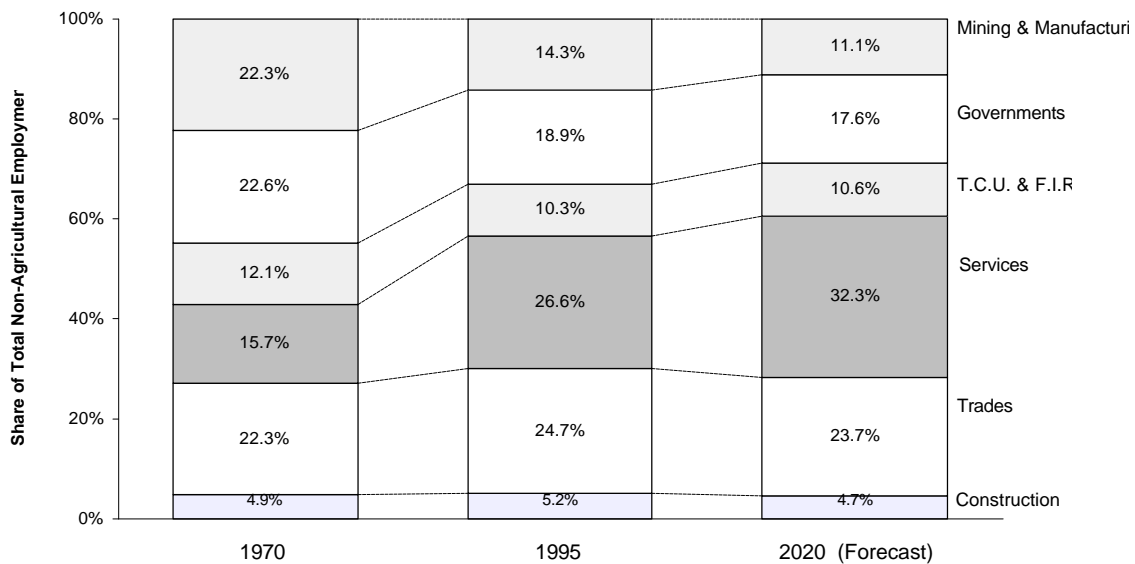
Employment Diversity

In 1960, manufacturing and government accounted for almost half of Washington's wage and salary employment. Manufacturing employment at that time was dominated by aerospace employment and lumber and wood products employment. These two manufacturing sectors accounted for almost half percent of manufacturing employment and close to 13 percent of total wage and salary employment. Government, excluding the armed forces, employed more than 20 percent of total wage and salary workers in the state. A third of government employment in 1960 was federal civilian workers, basically reflecting the strength and size of national defense-related establishments in Washington at that time.

For decades, the overall state economy moved in concert with the changes in its defense, aerospace, and timber industries. Booms and busts in these industries frequently would induce the same condition in the overall state economy. However, this relationship has changed substantially. Government employment receded to about 18 percent of total wage and salary employment in 1998. This mainly reflects shrinkage in federal government employment, particularly in defense. The aerospace and timber industries now account for less than 6 percent of the state's wage and salary employment. Manufacturing and government employment constituted less than one-third of wage and salary employment in 1998, compared to about one-half in 1960.

Manufacturing employment in the state is projected to grow significantly slower than the total employment in the next 25 years. As a result, the share of total state employment in manufacturing is expected to decline from 14.2 percent in 1995 to 11.0 percent by 2020 (Figure 3-7). The forecast calls for a reduction in the employment share of lumber and wood products industry from 1.5 percent in 1995 to 1.0 percent in 2020. Also, aerospace employment as a proportion of the state total is projected to decline from 3.4 percent in 1995 to 2.5 percent by 2020.

Figure 3-7
Distribution of Washington Employment by Industry



T.C.U. = Transportation, Communication, and Utilities. F.I.R.E. = Finance, Insurance, and Real Estate.

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The fastest growing sector of the Washington economy has been services. This reflects to a large degree the shift in consumption from goods to services that has taken place nationwide. The fastest growing services are business services and engineering, management and accounting services, both are components of traded services. The services sector is forecast to continue to gain employment share throughout the forecast period. By 2020, services will constitute almost one-third of total wage and salary employment. That will mean services employment will be slightly larger than manufacturing and government employment combined by the end of the forecast period.